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Wyoming State Treasurer

Mark Gordon

April 12, 2017

Letter to the Editor

Dear Editor:

What to do with Wyoming's Investments? By now, almost everyone in Wyoming has a sense that it has been raining for a while. And, it seems pretty obvious that the portfolio Wyoming has amassed over the years is critical to Wyoming's future. At \$20 billion, it is a major asset. How we use it can help soften today's trials but, if we are careless or profligate, our choices today will undoubtedly compromise that portfolio's ability to generate investment income in years to come. Our predecessors left to us a trust. What now is our duty to future generations? All good questions.

In a few forthcoming observations, I will touch on recent developments in the Treasurer's office that we believe will make a difference both for today and tomorrow. Taken together they represent a new direction for Wyoming funds. Still, because the current return generated from that portfolio saves every Wyoming citizen annually nearly \$1,800 dollars in taxes, we believe understanding the why and how of what we are planning to do will be useful. Obviously we want to avoid messing up a good thing, but the choices we make as a State today will affect how we fund our State, pay for education, build our buildings, and sustain our low-tax heritage far into the future. There are trade-offs. Neither staying the course nor changing it is without consequence. No pressure...

There is an oft quoted Chinese curse, "May you live in interesting times." What can we really expect in the next couple of years -- let alone decades? It is all interesting and potentially perilous. What we do know is that Wyoming has wrestled with booms and busts ever since statehood. Each decade since has had its ups and downs. We get that, but the problem is that the booms and the busts are unpredictable and now, even with the benefit of hindsight, perhaps unprecedented for the State. Still, having some wherewithal and using it wisely can certainly be a powerful antidote to economic uncertainty.

Wyoming is nothing if not resilient and her people soldier on through thick and thin. Occasionally, Wyoming hits a jackpot like the one we just experienced over the past decade or so. After barely making a budget in 2000, mineral revenues started pouring in as innovations in energy development kicked in. Revenues helped fuel the growth of our portfolio and launch our State on a spending spree. I am not sure we realized how high on the hog we were living, though, especially because all the while our investments were yielding unparalleled excess returns doubling up on our seeming bounty. In 2015, for example, Wyoming's investment earnings topped a billion, close to that year's total mineral income. It seemed like a good time to make hay – and we did with new schools, capital construction, and community largess amongst all the other things fat government does.

In retrospect it seemed like the good times would not come to an end. Even in the heart of “The Great Recession,” when Wyoming lost nearly 400 million (far less than her peers but substantial nonetheless), Wyoming's mineral industries continued to boom and the proceeds from coal, natural gas, oil, and the other minerals produced in Wyoming more than made up for the gap left by diminished earnings. The plan that diversified our income streams between investments and commodity extraction so that if one faltered, the other would pick up the slack seemed to be working or so we thought until 2016 when minerals, investments, and Wyoming's overall economy took a dive.

2016 was a horrible year for mineral income: oil fell from a price approaching \$100/bbl to \$26 in just a few months. Coal volume and price fell precipitously too largely because natural gas was so abundant, cheap, and universally produced that no one found it practical to revitalize old coal-fired electric generation especially when switching to natural gas helped utilities offset the added burdens of ever stricter air quality standards envisioned in the proposed Clean Power Plan.

Adding insult to injury, 2016 was the third worst year to be an investor since 1926. Only 1937 and 1931 proved to be worse. Yet even though we held our own growing regular dividends and interest income \$40 million year-over-year, Wyoming's budget that year was counting on lots of capital gains, those hoped for profits that come from selling something for more than you bought it for. Markets, though, are fickle. The gains Wyoming had grown accustomed to (possibly even addicted to) over the years turned altogether too quickly into capital losses leaving the State with a huge hole in anticipated revenue to fill. No surprise then that Wyoming had to refigure her budget.

And so we find ourselves once again in a familiar predicament not unlike one we experienced in the 1960s and 70s. Wyoming was broke then too – really worse off in some ways. Yet, adversity can often be the mother of invention and so it was for Wyoming. Those years saw the passage of a number of important constitutional amendments among them perhaps Governor Stan Hathaway's crowning achievement, the creation of and way to fund the Permanent Wyoming Mineral Trust Fund, which he introduced to the legislature in January of 1974 this way,

“In looking at the total picture, I would urge you first of all to enact in this session a constitutional amendment which establishes a mineral severance or excise tax for the permanent funds of this state. And I say constitutional amendment because if we are really looking at future generations, if we want to give them some resource out of the depletable minerals of this state, it must be tied into a constitutional amendment. Otherwise, some legislature at some specific time might get selfish and decide to spend all of that fund at one time. I feel strongly, very strongly, that any increase in the severance tax should be accompanied by a constitutional amendment setting aside a permanent fund, and that the income from that fund should be used by this and future legislatures for impact aid, for water development, for many different things that this state does and will need.”

Voters in 1974 clearly understood that Wyoming's mineral wealth was depletable and that future citizens were entitled to a share of it. Such a notion is consistent with the “Trust” obligation the State has carried since Statehood in her other permanent funds. Together these “permanent funds” account for more than 2/3rds of the State's Investment portfolio. The remainder resides in a couple of other pools which provide the operating capital of the State.

We now have a chance to be thoughtful like our forebearers. The Treasurer's Office has taken a first step, and working with the Legislature and the State Loan and Investment Board, we have the opportunity -- even in these difficult times -- to plan for our future while also mitigating against the pain of today. Sure there are choices and consequences -- so let's be clear about them. How we begin that conversation is the subject of this forthcoming series of commentaries

Letter to the Editor

April 12, 2017

Page 4

which will cover how the State invests her permanent funds; funds things like education; fosters economic development; and plans to deploy the new approaches made available with last year's passage of constitutional amendment A. Along the way, we will investigate how the State sets her spending policies, what they are meant to do, and how well they work. It is good work for a rainy day.

Sincerely,

A handwritten signature in blue ink that reads "Mark Gordon". The signature is fluid and cursive, with a long horizontal stroke at the end.

Mark Gordon
State Treasurer